

## Message Text

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17

ACTION ARA-10

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E.O. 11652: N/A

TAGS: EFIN VE

SUBJECT: VENEZUELAN TAX REFORM

SUMMARY. SOURCES IN MINISTRY OF FINANCE TOLD PRESS MAY 16 THAT TAX REFORM BILL INCLUDES PROVISIONS FOR DOUBLING INCOME TAX, NEW METHODS OF COLLECTION, CREATION OF NEW TYPES OF TAXES INCLUDING LUXURY AND NON-PRODUCTIVE LAND, AND MODIFICATIONS IN INHERITANCE, LIQUOR AND CIGARETTE TAXES. THE BILL, WHICH HAS BEEN APPROVED ONLY AT TECHNICAL LEVEL OF MINISTRY OF FINANCE, COULD BE SUBSTANTIALLY ALTERED AT THE MINISTERIAL LEVEL AS WELLAS IN CONGRESS. CONSIDERATION BY CONGRESS OF THE TAX REFORM LEGISLATION WILL NOT TAKE PLACE UNTIL CONGRESS FINISHES WITH THE IAW FOR THE NATIONALIZATION OF PETROLEUM, NOW EXPECTED BY JULY 17. END SUMMARY

1. TAX REFORM BILL WOULD INCREASE THE AVERAGE LEVEL OF INCOME TAX FOR INDIVIDUALS IN THE MIDDLE AND HIGHER INCOME FROM 8 PER CENT TO BETWEEN 15 AND 17 PER CENT. INTENTION OF LAW IS TO PLACE GREATER BURDEN OF TAXES ON UPPER INCOME CLASSES AND PRIVATE ENTERPRISE. IN ORDER TO AVOID TAX EVASION THE GOVERNMENT WILL INSTITUTE A SYSTEM OF ESTIMATING INCOME THROUGH ANALYSIS OF EXPENDITURES MADE BY INDIVIDUALS AND COMPANIES. LOWER INCOME CLASSES WILL CONTINUE TO ENJOY CURRENT EXEMPTIONS. TAX INCEN-  
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TIVES WILL BE CONTINUED OR INSTITUTED TO ENCOURAGE DEVELOPMENT

IN CERTAIN INDUSTRIES.

2. TAX REFORM BILL PROVIDES FOR THE CREATION OF NEW TAXES INCLUDING A TAX ON LUXURY GOODS AT THE WHOLESALE LEVEL AS A MEANS OF DISCOURAGING CONSPICUOUS CONSUMPTION AND OF PROMOTING SAVINGS TO BE USED IN DEVELOPMENT. ON THE OTHER HAND, DEDUCTIONS ARE PROVIDED FOR INVESTMENT IN HOUSING AND REINVESTMENT IN ECONOMIC ACTIVITIES. NO HEAVY TAXES WILL BE ESTABLISHED FOR BASIC COMMODITIES. A NEW TAX WILL BE ASSESSED ON RURAL LAND THAT IS NOT BEING PRODUCTIVELY UTILIZED. THE OBJECT OF THE TAX IS TO ELIMINATE THE ENRICHMENT OF A FEW VENEZUELAN THROUGH THE BUYING AND SELLING OF LAND THAT HAS INCREASED IN VALUE WITHOUT PRODUCTION. OTHER CHANGES IN THE CURRENT TAX STRUCTURE, WHICH WERE NOT SPECIFICALLY OUTLINED, INCLUDE TAXES ON LIQUOR, CIGARETTES, AND INHERITANCE. A TAX ON ASSETS WAS CONSIDERED BUT REJECTED AT THE TECHNICAL LEVEL OF THE MINISTRY OF FINANCE.

3. COMMENT: SOURCES IN THE MINISTRY OF FINANCE EMPHASIZED THAT THE PRIMARY PURPOSE OF THE TAX REFORM WAS TO ACHIEVE A BETTER DISTRIBUTION OF WEALTH AND PROMOTE DEVELOPMENT AND NOT TO INCREASE GOVERNMENT REVENUE. NEVERTHELESS, THEY ACKNOWLEDGED THAT THE EFFECT OF THE REFORM MEASURES WOULD BE, IN FACT, TO INCREASE INCOME. THE GOVERNMENT FOR SOME TIME HAS ARTICULATED THE GOAL OF REDUCING OVERDEPENDENCE ON OIL INCOME AND HAS BEEN ENCOURAGED BY THE INTERNATIONAL LENDING INSTITUTIONS TO CARRY OUT A MASSIVE TAX REFORM TO ACCOMPLISH THIS PURPOSE. UP TO THIS TIME, HOWEVER, THE GOVERNMENT HAS BEEN RELUCTANT FOR POLITICAL REASONS TO TAKE NECESSARY MEASURES FOR TAX REFORM. ON THE FISCAL SIDE, DESPITE THE INCREASE IN OIL REVENUES, THE RAPID INCREASE IN GOVERNMENT EXPENDITURES WOULD MAKE TAX REFORM DESIRABLE, IF NOT NECESSARY, IN VIEW OF DECLINING PRODUCTION IN THE PETROLEUM SECTOR, UNLESS THERE IS ANOTHER ROUND OF SIGNIFICANT INCREASES IN THE PRICE OF OIL.  
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## Message Attributes

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**TAGS:** EFIN, VE  
**To:** STATE  
**Type:** TE  
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